

Management System: Budget and Financial Management

Subject Area: Internal Review

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1.0 Introduction

This process involves assessing the efficiency and effectiveness of various Federal and/or contractor financial management activities. These activities include (1) analysis of contract closeout; (2) assessment of the adequacy of internal controls; (3) oversight of contractor internal audit functions; (4) liaison with external (i.e., Office of Inspector General and Government Accountability Office) audit organizations; and (5) conducting independent reviews of operations, systems, processes, and practices as needed.

2.0 Contents

| Procedures | Procedure Content |
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| 1. Complying with Federal Manager's Financial Integrity Act (FMFIA) | <ul style="list-style-type: none">• Obtain current year HQ guidance.• Determine organizations subject to FMFIA.• Issue requests to contractors for their internal control assurance.• Issue requests to federal project directors for their internal control assurance and EM Internal Control Checklist.• Issue requests to Assistant Directors for internal control assurance for their applicable area.• Analyze the assurances from contractors, federal project directors, and Assistant Directors.• Prepare and issue EMCBC's internal control assurance.• Issue requests to contractors for their for management representation statements.• Issue requests to federal project directors for their management representation statements.• Analyze representations from contractors and federal project directors.• Prepare and issue EMCBC's management |

| Procedures | Procedure Content |
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| | representation memorandum. |
| 2. Reviewing Contractor Internal Audit Oversight Plans | <ul style="list-style-type: none"> • Obtain from M&O contractor(s) their annual internal audit plans. • Analyze audit plans for adequacy. Discuss differences of opinion with contractor Internal Audit staff. • If necessary, have M&O contractor revise their audit plans. • Submit audit plans to the OIG. |
| 3. Coordinating External Audit/ Inspections | <ul style="list-style-type: none"> • Inform EMCBC management of planned audit/inspection. • Provide assistance to auditors/inspectors. • Attend entrance, status and exit meetings; keep management informed of significant issues. • Respond to audit/inspection findings and recommendations based upon input from Headquarters and EMCBC management. • Track recommendations in DOE Audit Report Tracking System (DARTS). • Ensure recommendations are implemented. • Report completion of implementation to auditors/inspectors. |
| 4. Developing and Maintaining Multi- Year Assessment Plan | <ul style="list-style-type: none"> • Identify contractor financial management activities and determine frequency and methodology for assessments. • Prepare draft plan and supporting schedules for management review. • Obtain management approval of plan. • Conduct assessments and track progress on the plan. • Update plan on a regular basis, at least annually. |
| 5. Coordinating and Performing A-123 Process | <ul style="list-style-type: none"> • Obtain and review Headquarters' annual guidance. • Identify areas of risk and prioritize risk. • Identify, evaluate and test contractors' internal controls. • Identify, evaluate and test federal internal controls. • Summarize internal control evaluations and testing using the Federal Manager Financial Integrity Act (FMFIA) Tool. |

| Procedures | Procedure Content |
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| | <ul style="list-style-type: none"> • Inform management. • Track and resolve control weaknesses. • Keep the FMA Tool up-to-date. |
| 6. Preparing and Conducting Special Reviews | <ul style="list-style-type: none"> • Determine the purpose, objective and scope of the review. • Research the subject area. • Conduct the review and keep the requester informed of the review status. • Summarize the review findings and recommendations. • Report on the results of the review. • Track and resolve recommendations. |
| 7. Reviewing Contracts Prior to Closeout | <ul style="list-style-type: none"> • Obtain procurement files. • Obtain Defense Contract Audit Agency (DCAA) reports. • Track and resolve all outstanding unresolved and questioned costs. • Reconcile procurement files, Standard Accounting and Reporting System (STARS) and audit reports to invoiced amounts. • Issue closeout memoranda. |
| 8. Coordinating Requests for Audit | <ul style="list-style-type: none"> • Identify areas that need DCAA audits. • Issue requests for audit to DCAA. • Analyze DCAA audit reports, findings and recommendations. • Track findings and recommendations and resolve them. • Track status of contractor systems and report to Contracting Officer weaknesses. |
| 9. Local Travel and Temporary Duty (TDY) | <ul style="list-style-type: none"> • Promptly process authorizations • Provide general administrative oversight of TDY and local travel in accordance with local procedures and Federal Travel Regulations (FTR) • Perform reviews of TDY and local travel to ensure compliance with EMCBC procedure and the FTR. |

3.0 Exhibits/Forms

- Oversight Tools
- External Audit/ Inspection (IG/ GAO) Coordination
- Federal Manager's Financial Integrity Act- Instructions for Preparing an Action Plan
- Federal Manager's Financial Integrity Act- Instructions for Performing a Summary Management Review
- Department Audit Report Tracking System (DARTS)- Instructions
- Inspector General Management Decisions Instructions
- Management Decision
- Process Flow, Tracking and Closing Audit/ Review
- Entity Assessment Tool- Instructions

4.0 Related Information

- [Audit Responsibilities And Contract Closeout, A Self – Study on Contract and Financial Assistance Closeout and Audit Responsibilities](#)
- [Cooperative Audit Strategy](#)
- [DEAR 970.5232-3](#), Accounts, Records, and Inspection
- [Defense Contract Audit Agency](#) (DCAA) Web Site
- [Departmental Audit Report Tracking System](#) (DARTS)
- [DOE Accounting Handbook](#)
- DOE Guidance for DOE O 413.1B, "Internal Control Program"
- [DOE Office of the Chief Financial Officer](#), Officer of Risk Management and Financial Policy (CF- 50) Web site
- [DOE O 221.3A](#), Establishment of Management Decisions on Office of Inspector General Reports
- [OMB Circular A-50](#), Audit Follow Up
- [OMB Circular A-123](#), Management Responsibility for Internal Control
- [OMB Circular A-136](#) Financial Reporting Requirements
- [Federal Managers Financial Integrity Act](#)
- [FAR 4](#), Administrative Matters
- [FAR 9.104-1](#), General Standards
- [FAR 31](#), Contract Cost Principles and Procedures
- [FAR 42](#), Contract Administration and Audit Services
- [Generally Accepted Government Audit Standards](#) (GAGAS)
- [Standard Accounting and Reporting System](#) (STARS)

5.0 Requirements

| Document | Title |
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| <u>DEAR 942</u> | <i>Contract Administration</i> |
| <u>DOE O 221.1A</u> | <i>Reporting Fraud, Waste And Abuse To The Office Of Inspector General</i> |
| <u>DOE O 221.2A</u> | <i>Cooperation With The Office Of Inspector General</i> |
| <u>DOE O 221.3A</u> | <i>Establishment Of Management Decisions On Office Of Inspector General Reports</i> |
| <u>DOE O 224.2A</u> | <i>Auditing Of Programs And Operations</i> |
| <u>DOE O 224.3</u> | <i>Audit Resolution And Follow-Up Program</i> |
| <u>DOE O 2340.1C</u> | <i>Coordination Of General Accounting Office Activities</i> |
| <u>DOE O 413.1B</u> | <i>Internal Control Program</i> |
| <u>DOE O 520. 1A</u> | <i>Chief Financial Officer Responsibilities</i> |
| <u>DOE O 522.1</u> | <i>Pricing Of Departmental Materials And Services</i> |
| <u>DOE O 523.1</u> | <i>Financial Management Oversight</i> |
| DOE M 552.1- 1A | US Department of Energy Travel Manual |
| DOE M 552.1- 1A, Administrative Change | Travel Policy and Procedures |

6.0 Definitions

| Term | Definition |
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| Federal Manager's Financial Integrity Act of 1982 | <p>The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires agency heads to provide an annual assurance statement on whether internal control and financial systems provide reasonable assurance that the integrity of Federal programs and operations is protected. In response the Department of Energy developed a program for evaluating the adequacy of its internal controls and determining whether they conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office. The results of these evaluations and other information provided by senior management are used to determine whether there are any material weaknesses. "Section 113 of the Accounting and Auditing Act of 1950 (31 USC 660)"</p> |
| Chief Financial Officers Act of 1990(CFO Act) | <p>The purposes of the CFO Act are to (1) bring more effective general and financial management practices to the Federal government, (2) improve agency systems of accounting, financial management, and internal controls, and (3) provide for the production of complete, reliable, timely, and consistent financial information for use in the financing, management, and evaluation of Federal programs.</p> <p>The CFO Act establishes (1) a Deputy Director for Management in the Office of Management and Budget (OMB) to be the chief Federal official responsible for financial management, (2) an Office of Federal Financial Management, in OMB, headed by a Comptroller who is the deputy and principal advisor to the OMB Director for Management in carrying out his/her responsibilities under the CFO Act, and (3) a Chief Financial Officer (CFO) and Deputy CFO in each executive department and in each major executive agency in the Federal government</p> <p>"H.R.5687 -- Chief Financial Officers Act of 1990"</p> |
| OMB Circular A-50, Audit Follow- up | <p>Establishes policies and procedures for addressing Inspector General and Government Accountability Office audit issues.</p> <p>Budget and Accounting Act of 1921, as amended (31 USC 16 &</p> |

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| | <p>53) Section 236 of the Legislative Reorganization Act of 1970.</p> |
| <p>OMB Circular A-123, Management Responsibility for Internal Control</p> | <p>Implements the Federal Manager’s Financial Integrity Act and expands control/ reporting requirements for internal control over financial reporting, credit card programs and improper payments.</p> <p>“The Circular is issued under the authority of the Federal Managers' Financial Integrity Act of 1982 as codified in 31 U.S.C. 3512.”</p> |
| <p>OMB Circular A-136, Financial Reporting Requirements</p> | <p>Identifies reporting requirements for Audited Financial Statements and Performance and Accountability Reports/ Agency Financial Reports.</p> <p>“Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990 (“CFO Act”) (Pub. L. No. 101 – 576), the Accountability of Tax Dollars Act of 2002 (“ATDA”) (Pub. L. No. 107 – 289), and Annual Management Reports under the Government Corporations Control Act (31 U.S.C. § 9101 et seq.) “</p> |
| <p>Management Assurance</p> | <p>The process by which management ensures: (1) Efficiency in managing resources, (2) Effectiveness in producing results (3) Integrity of operations.</p> |
| <p>Controls</p> | <p>The foundation of management assurance and accountability. Support all objectives- efficiency, effectiveness and integrity.</p> |
| <p>Compliance</p> | <p>Focuses on “how” we accomplish our objectives. Supports integrity and consistency.</p> |
| <p>Internal Control</p> | <p>An integral part of an organization’s management that provides reasonable (but not absolute) assurance that the following objectives are being achieved. (1) Effectiveness and Efficiency of Operations. (2) Reliability of financial reporting. (3) Compliance with applicable laws and regulations. (Safeguarding assets is a subset of these objectives).</p> |
| <p>Control Environment</p> | <p>Management and employees should maintain an environment that sets a positive, supportive attitude toward internal control.</p> |

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| Risk Assessment | Management should assess (and controls should be designed to mitigate) risk from internal and external sources. |
| Control Activities | Control activities help ensure management directives/objectives are accomplished and should be effective and efficient in their design. |
| Monitoring | Internal Control should be designed to provide on- going monitoring of effectiveness and efficiency, and should include procedures for correcting deficiencies. |
| Inherent Risk Assessment | An evaluation of the likelihood and impact of risk occurrence, without consideration of what controls are in place. |
| Control Risk Assessment | An evaluation of the likelihood and impact of risk occurrence, considering existing controls. |
| Preventive Controls | Designed to prevent or mitigate risk. |
| Detective Controls | Designed to detect risk occurrence and/ or the failure of other controls. |
| Manual Controls | Designed to be executed by people. |
| Automated Controls | Designed to be executed automatically by systems. |
| Segregation of duties | <p>Control policy according to which no person should be given responsibility for more than one related function. For example, the person responsible for purchasing should not also be responsible for its payment.</p> <p>2. Methods and procedures established as an internal check on activities through separation of (1) custody of assets from accounting personnel, (2) authorization of transactions from custody of associated assets, and (3) operational responsibilities from record-keeping responsibilities.</p> |
| Defense Contract Audit Agency Audits (DCAA) | Is responsible for performing all audits for the Department of Defense (DoD), and for providing accounting and financial advisory services to DoD components responsible for procurement and contract administration. DCAA also provides contract audit services for many other government agencies. |

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| Inspector General (IG) Cost Allowability Audits | <p>For M&O contractors, the inspector General’s responsibility to audit the allowability of contractor costs is accomplished through the “Cooperative Audit Strategy”. (1) Contractor internal audit plans are developed in consultation with the IG, CFO and Contracting Officer. (2) Areas subject to incurrence of unallowable costs are covered within a 5- year cycle. (3) IG assesses internal audit function and results of audits to express an opinion on the allowability of costs presented in the Statement of Costs Incurred and Claimed (SCIC). (4) Larger contractor’s statements reviewed annually- Others on a 3 year cycle. (5) Field CFO and Field Procurement Official also perform limited reviews to support certification of the contractors SCIC. (6) Contracting Officer makes final decision on the allowability of cost.</p> |
| Agency Financial Report | <p>Previously the Performance and Accountability Report (PAR). Consolidates accountability reporting related to Audited Financial Statement, performance, internal controls and compliance with laws and regulations. *Emphasizes accountability through transparency</p> <ul style="list-style-type: none"> • Chief Financial Officer Act • Government Performance and Results Act • Government management Reform Act • Federal Manager’s Financial Integrity Act • Federal Financial Management Improvement Act • Federal Information Systems Management Act • OMB Circular A-123, Appendix A • Improper Payments Information Act • Inspector General Act |
| Accountability- Management Certifications | <p>FMFIA Annual Certifications- Secretary certifies reasonable assurance on the adequacy of management controls/ Supported by field and program certifications.</p> <p>FFMIA Certifications- Secretary certifies to compliance with Federal system requirements, Federal accounting standards and Standard General Ledger requirements/ supported by field and program certifications.</p> <p>A-123, Appendix A, Certifications- Secretary certifies to the adequacy of internal controls over financial reporting/ supported by field and program certifications.</p> <p>Management Representation Letters- Secretary and the CFO make certain representations related to items presented in the</p> |

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| | <p>Department's audited financial statements/ supported by field and program representations.</p> <p>IG/GAO Audit Closure Certifications- Cognizant managers certify that audit corrective actions have been completed and are effective in addressing the audit issues.</p> <p>Statement of Costs Incurred and Claimed (SCIC) Certifications- Field CFO and Field Procurement Executive certify that M&O contractors have established systems to minimize the incurrence of unallowable costs/ IG signs and identifies questioned costs, while the contracting Officer approves the SCIC.</p> |
| <p>Office of Personnel and Management (OPM)</p> | <p>The Office of Policy and Management- To support the Federal government's ability to have the best workforce possible to do the best job possible.</p> <p>(1) OPM LEADS- Federal agencies in shaping human resources management systems to effectively recruit, develop, manage and retain a high quality and diverse workforce;</p> <p>(2) OPM PROTECTS- National values embodied in law, including merit principles and veterans' preference;</p> <p>(3) OPM SERVES- Employing agencies, Federal employees, retirees, their families, and the public through technical assistance, employment information, pay administration, and benefits delivery.</p> <p>(4) OPM SAFEGUARDS- The assets held in trust for participants in earned benefit programs.</p> |
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